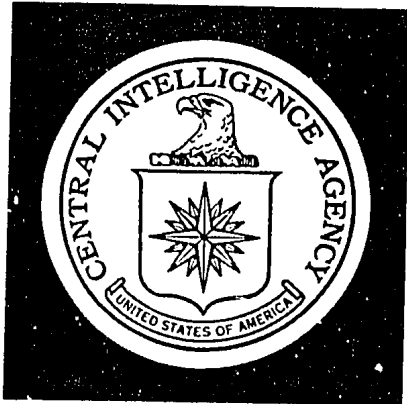


Approved For Release
2009/10/06 :
CIA-RDP85T00875R00160001

Approved For Release
2009/10/06 :
CIA-RDP85T00875R00160001

Confidential

DOC/SER



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Ghana Since Nkrumah: Some Problems
in Restarting an Economy*

Confidential

ER IM 68-87

July 1968

Copy No 56

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

CONFIDENTIAL

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1968

INTELLIGENCE MEMORANDUM

Ghana Since Nkrumah: Some Problems
in Restarting an Economy

Summary

The two major unsolved problems Nkrumah left to Ghana two years ago -- an enormous foreign debt and a greatly enlarged and inefficient state sector -- are still impeding efforts to get the economy moving forward again. Unless Ghana can obtain more foreign aid than now seems likely, economic recovery and a resumption of development will be extremely difficult. Domestic production will stagnate unless the supply of imported spare parts and raw materials can be significantly increased. But Ghana must increase production for export and for import substitution if it is to pay for greater imports and at the same time meet scheduled debt repayments. Only if adequate foreign aid, investment, and political stability could be assured, would the prospects for rehabilitation and economic development appear favorable. These prerequisites are unlikely to be met in the next few years, however, and economic progress will be slow at best.

Ghana came to independence in 1957 with foreign exchange holdings of more than \$500 million, a booming cocoa-based economy, substantial social and economic infrastructure, and favorable prospects for economic development. Nkrumah's government used up the inherited foreign reserves and contracted an unmanageable external debt in pursuit of rapid development and a more important role for Ghana in African

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

CONFIDENTIAL

CONFIDENTIAL

affairs. Much of the public investment went into infrastructure, some of which was of economic utility but much of which was for ostentatious public buildings, the army, and other nondevelopmental projects. Most of the economic development projects which were undertaken by the government were poorly planned, overly expensive, and unprofitable. Many cannot now pay their way; others probably could if they received fresh injections of capital and managerial skills. Economic growth declined in the last years of Nkrumah and by 1965 had practically stopped. Deficit financing and the scarcity of foreign exchange resulted in rising inflation, and real private consumption declined.

The new regime, a military-police junta, quickly reversed most of Nkrumah's policies and joined Indonesia in being the second less developed country to turn its back on socialism. With the help of Western advisers, it evolved a stabilization policy designed to cope with the immediate crisis and to reduce the government's role in the economy. Government spending was cut, inflation was stopped, numerous public employees were laid off, and imports were restricted to essentials. Although 1966 was a year of severe retrenchment in the public sector and real domestic product grew by only about 1 percent, the economy achieved a better balance. The pressing external debt problem was postponed through re-scheduling. Output improved somewhat in 1967, and private per capita consumption rose for the first time in years, but because of the lack of foreign exchange, imports had to be restricted well below the level considered necessary for economic rehabilitation.

The first flush of economic reform is now over. Labor is pressing for long-delayed wage increases, and debt repayments are scheduled to rise rapidly in 1968 and 1969. The damage done to the economic structure (particularly, the cost of expanding the state sector) has proved slow to undo, despite serious efforts by the new regime and patience on the part of the people. The single most important constraint on economic recovery remains the severe and continuing pressure on the balance of payments that is caused by the external debt burden. Ghana cannot borrow abroad except on the most generous terms. Economic rehabilitation will therefore be long and painful unless receipts of foreign aid are substantially increased.

CONFIDENTIAL

CONFIDENTIALEconomic Decline Under Nkrumah

1. At independence in March 1957, Ghana was one of the most promising West African states. Endowed with a variety of resources -- gold, diamonds, manganese, bauxite, tropical hardwoods, and, above all, numerous industrious cocoa farmers who produced about a third of the world's supply -- Ghana appeared to be off to a good start. Foreign exchange reserves amounted to more than \$500 million; roads, railroads, and other infrastructure were reasonably well developed; the subsistence sector was comparatively small; the number of literate and skilled citizens was proportionately higher than in much of Black Africa; and the indigenous civil service was probably one of the best on the subcontinent. By 1957, gross national product (GNP) in real terms was growing at a rate of about 5 percent a year and had reached more than \$1 billion, or nearly \$175 per capita. The prime source of this growth was the high world price for cocoa.

2. Led by its charismatic president, Kwame Nkrumah, Ghana embarked on a vigorous economic development program and, at the same time, sought to become the driving force behind the movement



President Kwame Nkrumah

toward pan-African unity. In the course of his nine-year rule, Nkrumah became increasingly dictatorial and increasingly enamored of the "socialist road to development." Political opposition was gradually eliminated, and most of the more democratic and pro-Western political figures were driven into exile, jailed, or otherwise silenced, as were many of the ablest civil servants and professional people. Nkrumah became more and more pro-Communist and came to lean heavily on the advice and example of Communist states, particularly the Soviet Union.

3. In line with his penchant for statism and espousal of socialism, Nkrumah focused on increasing the size of the state sector of the economy and on expanding the power and pervasiveness of the

CONFIDENTIAL

CONFIDENTIAL

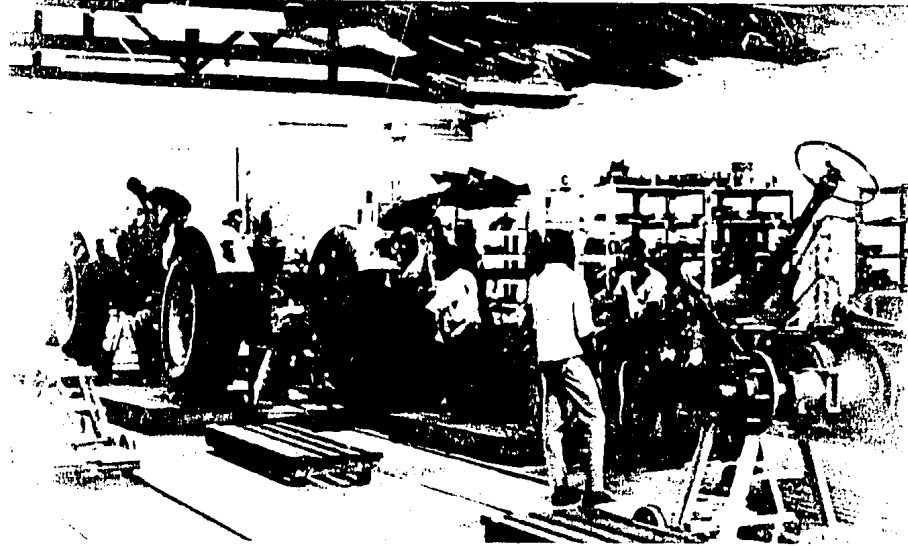
government apparatus. The number of government employees expanded rapidly, and by the end of 1965, nearly 75 percent of recorded wage-earners* worked for government establishments. Nkrumah's ambitious development program was based on two main premises: (1) that increased agricultural productivity and output required large-scale mechanized farming, which could only be achieved through direct investment and administration of state farms, peasant cooperatives, and equipment pools reminiscent of the Soviet machine tractor stations, and (2) that enterprises built and owned by the state ranging from public utilities through a variety of manufacturing plants to such projects as a steel plant, a gold refinery, and a ship-scraping facility were essential for quick industrialization. The pursuit of these objectives resulted in policies that discouraged private investment, both domestic and foreign, and private economic activity.

4. Since independence, Ghana has consumed or invested considerably more than it has produced, financing the excess until about 1962 by drawing down its foreign exchange reserves. During that period, much public investment went to improve infrastructure -- roads, schools, health facilities, the new port at Tema, and powerplants. After 1962, investments were increasingly financed by short-term and medium-term credit from domestic financial institutions and from foreign private firms whose loans to Ghana for specific equipment or facilities were in most cases guaranteed by their governments. Most of these suppliers' credits were used to finance either long-term or nonself-amortizing projects, yet they were extended for relatively short periods -- averaging about five to seven years -- and usually carried commercial rates of interest. Many of the projects were ill-conceived, overly expensive and elaborate, and badly administered. For example, large state farms, elaborately equipped with imported tractors and machinery, employed numerous workers and usually produced no more, and sometimes less, than had the peasants who previously had worked the land. As time went on, the number and value of

* *Those in establishments employing more than 10 persons.*

CONFIDENTIAL

these supplier credit contracts -- usually accompanied by sizable bribes to responsible officials and including cuts for Nkrumah or the party -- rose to alarming levels. By the end of 1965, Ghana had entered into more than 200 such contracts valued at over \$700 million. Ghana obtained no long-term loans under Nkrumah except for the Volta hydroelectric project and a few other development projects.



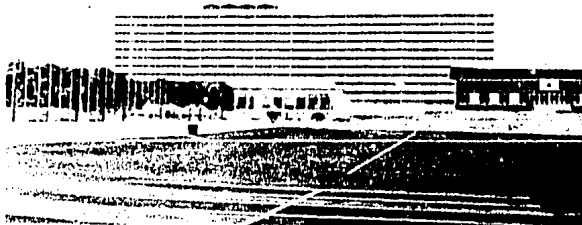
(1967)

Tractor Assembly Plant Built with Czech Aid



(1964)

Workers Brigade Farm



The State House: One of the more lavish projects built during the Nkrumah regime (1966)



The Volta Hydroelectric Project Completed in 1965

CONFIDENTIAL

5. Particularly after 1962, the development budget and current government expenditures grew rapidly. From 1960 through 1965, the total budget deficit averaged the equivalent of about 10 percent of estimated GNP. In 1965, taxes were drastically increased, the burden falling almost entirely on private consumers, and government revenues rose by more than 35 percent. Nevertheless, the government recorded the largest deficit in its history.

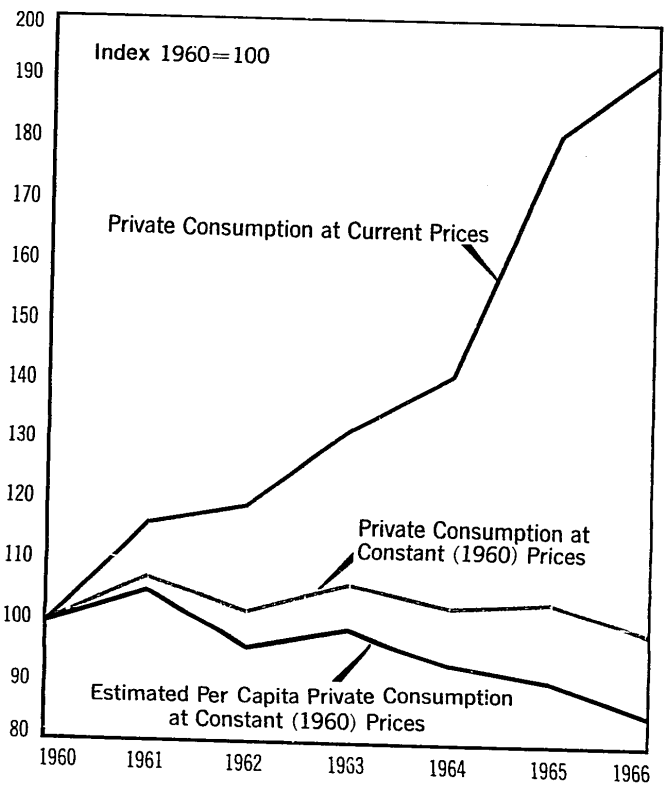
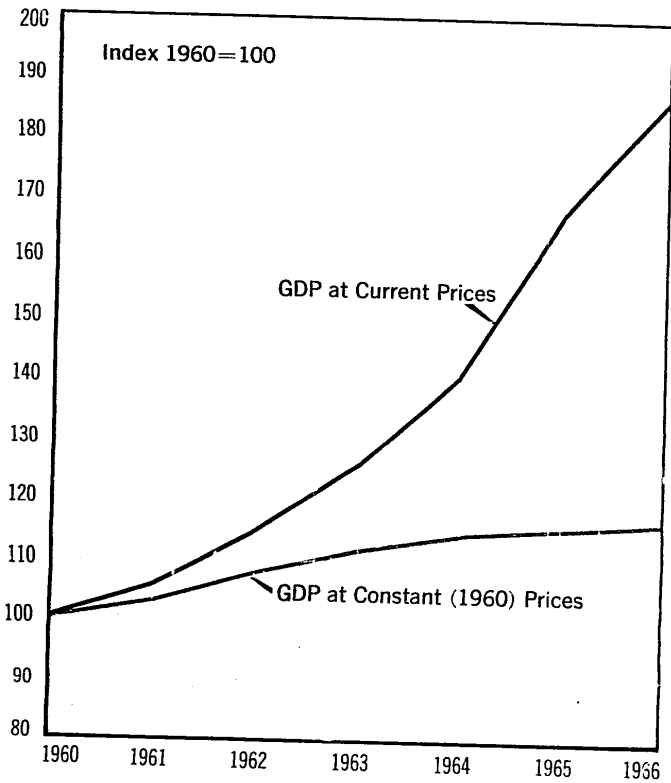
6. Deficit financing was probably the leading cause of the worsening inflation. Prices rose about 30 percent in 1965 alone, and by the end of that year the consumer price index, based on March 1963, stood at 161. Growing shortages of foreign exchange also contributed to inflation after 1961, as the government was forced to restrict imports.

7. Real growth slowed down and by 1965 had almost ceased, in spite of the continuing high level of total investment, because so many of the government-sponsored projects were unproductive. Industrial output grew only slowly and results in the public sector were far from commensurate with input. In the private sector, shortages of spares and replacement equipment and of imported raw materials kept production well below capacity. Total private consumption in real terms stagnated, and per capita private consumption declined rapidly after 1963 (see Figure 1). Agricultural output faltered because of the government's emphasis on huge and, in most cases, nonviable state farms and cooperative organizations, which were more political than economic. Local food prices soared, especially after 1964 (see Figure 2), but domestic producers failed to respond to the incentive of higher prices for their produce because of rapidly rising taxes and the disruption of established marketing arrangements. Development of agriculture was neglected -- farm-to-market roads deteriorated, extension work increasingly favored the politically correct farmers or traders, and import and distribution facilities for fertilizer and insecticides deteriorated.

8. By the time Nkrumah's government was overthrown in February 1966, the economy had been reduced to a shambles, and the new government -- the National Liberation Council (NLC) composed of an equal number of police and military leaders -- was confronted with a major economic and financial

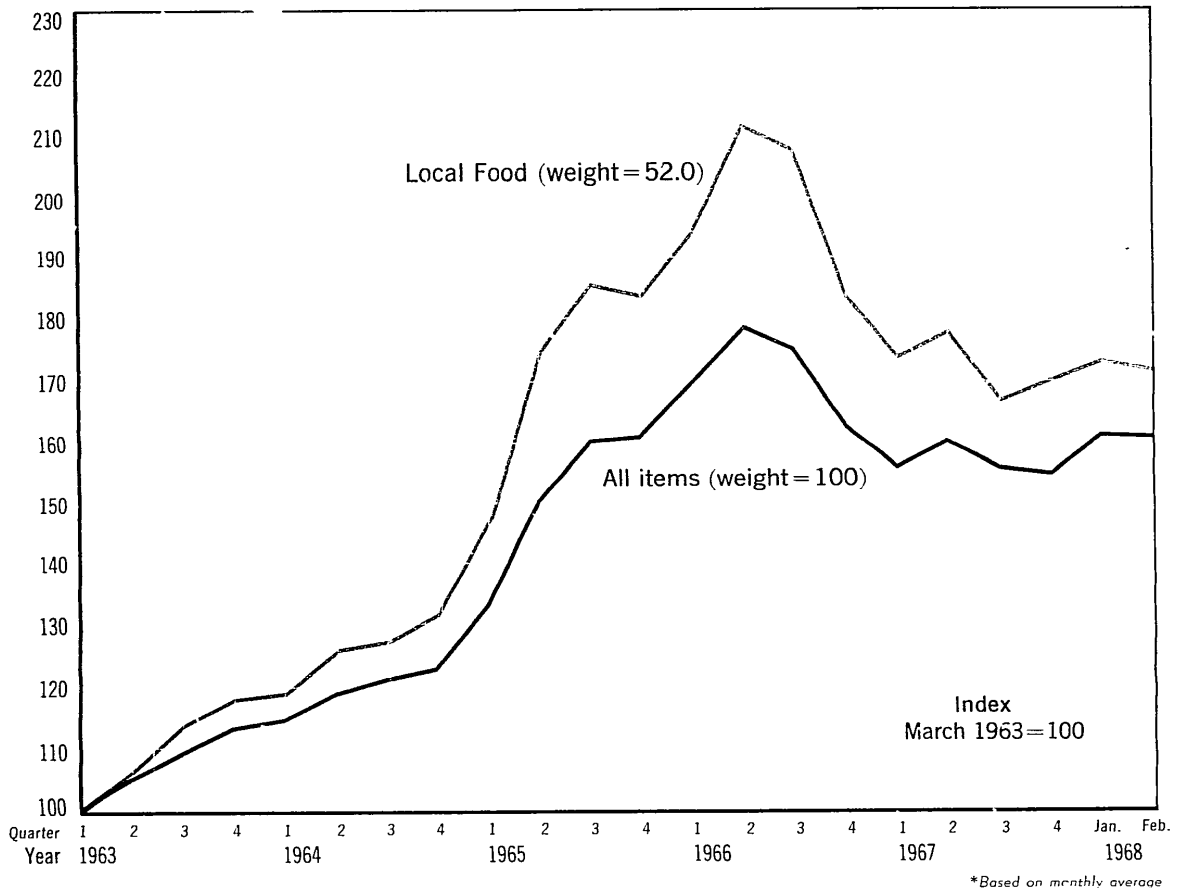
Ghana: Gross Domestic Product and Private Consumption Trends 1960-66

Figure 1



Ghana: Normal Consumer Price Indexes March 1963-February 1968*

Figure 2





ILLEGIB

crisis. The government's net foreign exchange position was negative (see Figure 3), arrears in external payments had risen to at least \$60 million, and many exporters were refusing to accept Ghanaian letters of credit. Moreover, the country faced an external debt servicing schedule that would have equaled better than one-third of export revenues for 1966. Output was stagnant, unemployment and prices were rising, and shortages of such basic imports as foodstuffs, drugs, and spare parts were acute.

Problems in Restarting the Economy

Policies of the New Regime

9. The new regime, in which executive authority is exercised by the National Liberation Council (NLC), instituted a complete reversal of most of Nkrumah's policies and joined Indonesia in becoming the second less developed country to turn its back on the "socialist road to development." Following an anti-Communist reaction in the first few months, trade and a few Communist-aided projects were allowed to continue, but the NLC remains suspicious of Communist intentions. Although remaining outwardly nonaligned, the NLC is pro-West and relies on Western countries for aid and advice. It has restored good relations with neighboring countries and reopened borders long closed by distrust of Nkrumah's goals. It has tried

CONFIDENTIAL

to assist private enterprise and to remove as many obstacles as possible to increased private production. It envisions the government role in the economy as one of insuring financial stability, fostering private initiative in agriculture and industry, and reserving new public investment for infrastructure and for a few pioneer industries to be developed in many cases for subsequent sale to private interests. It has further sought to reduce the number of state-owned enterprises by sale of full or part interest to private investors, both Ghanaian and foreign.

10. Only after the first wave of enthusiasm had subsided and the new regime had started to take stock of the economic situation, did it begin to realize the full measure of the economic and financial crisis. With the help of International Monetary Fund (IMF) advisers, it formulated a phased rehabilitation program to restore economic stability.

11. In the first, or emergency, phase, lasting from March to June 1966, the new government sought to relieve the pressing shortages of imported food, drugs, raw materials, and spare parts necessary to prevent a further decline in output. The United States, West Germany, and Canada provided commodity assistance totaling about \$14 million for this program, and the IMF approved a \$36.4 million standby arrangement from which Ghana made its first drawing in early June 1966. The NLC began a thorough investigation into the financial and other irregularities of the state corporations and suspended work on low-priority projects. Deep budget cuts were made across the board, under IMF guidance. The government canceled contracts valued at more than \$100 million and sought other buyers for some of Nkrumah's extravagant purchases, such as a naval frigate being built in Britain. Work on almost all Communist-aided projects was halted while the government assessed their utility.

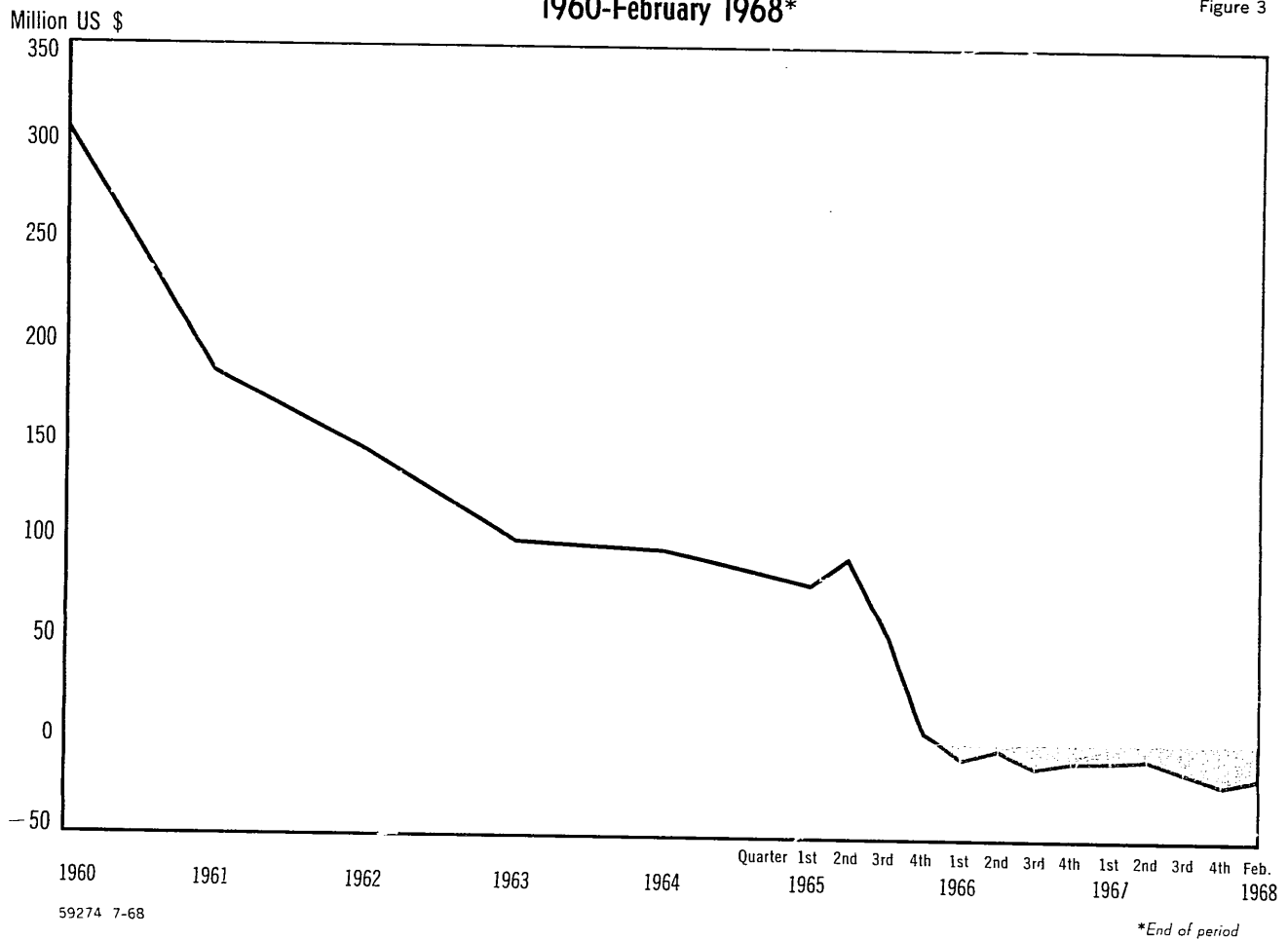
Performance in Late 1966 and 1967

12. The second, or stabilization, phase began in July 1966 and was to last two years. During this period, inflation was to be stopped, government expenditures were to be brought into balance with

CONFIDENTIAL

Ghana: Net Foreign Assets 1960-February 1968*

Figure 3



CONFIDENTIAL

revenues, the balance-of-payments deficit was to be reduced to manageable proportions through foreign aid and a stretchout in debt repayment, and the numerous inefficient or useless government enterprises were to be reorganized or scrapped. The new regime has been quite successful in implementing its policy of retrenchment in the public sector. It has moved slowly, however, to reorganize the government establishment and to sell, consolidate, or otherwise improve the efficiency of public enterprises. Moreover, the continuing shortage of foreign exchange has severely hampered private and government efforts to utilize existing capacity.

13. Real gross domestic product (GDP) in 1966, a year of severe and painful retrenchment, grew less than in any year since independence -- about 1 percent. Private consumption continued to decline, but the major retrenchment effort was in the public sector, where government consumption declined by about 10 percent. Price inflation was halted by mid-1966, and prices declined fairly rapidly thereafter (see Figure 2). Nearly 15 percent of the registered labor force of about 370,000 were laid off -- 47,000 from government jobs and several thousand in the private sector. Imports dropped by about 20 percent compared with 1965, well below the level considered necessary to utilize existing manufacturing capacity and to repair degenerating equipment, because foreign aid materialized more slowly than expected* and export receipts dropped about 15 percent compared with the previous year. The decline in export earnings was largely attributable to a fall in cocoa receipts because of a smaller harvest and because the Nkrumah government had sold much of the crop forward at a time when prices were lower.

14. GDP rose somewhat in 1967, in contrast to the stagnation of the previous years, and was about 3 percent higher than in 1966. Private consumption also increased, and per capita consumption rose for the first time since 1963, but by very little. Although gross fixed investment declined still further in 1967, utilization of capacity improved, and a few new factories went into production.

* Long-term foreign loans and grants to Ghana totaled about \$20 million in 1966, of which only about \$11 million was disbursed in that year.

CONFIDENTIAL

CONFIDENTIAL

There was also some improvement in the supply of spare parts and raw materials and, as a result, industrial output rose by about 15 percent. Agricultural production also increased, largely because of good weather, higher market prices, and the greater availability of farm labor.

15. Exports rose about 10 percent but remained below the 1965 level, and imports declined 15 percent compared with 1966 (see Figure 4). Ghana recorded a trade deficit despite the severe restrictions on imports, which hampered repair and restoration of plant and equipment. Largely because the total value of new loans and trade credits continued to decline,* the country also incurred about a \$46 million deficit in its balance of payments, somewhat larger than in 1966.

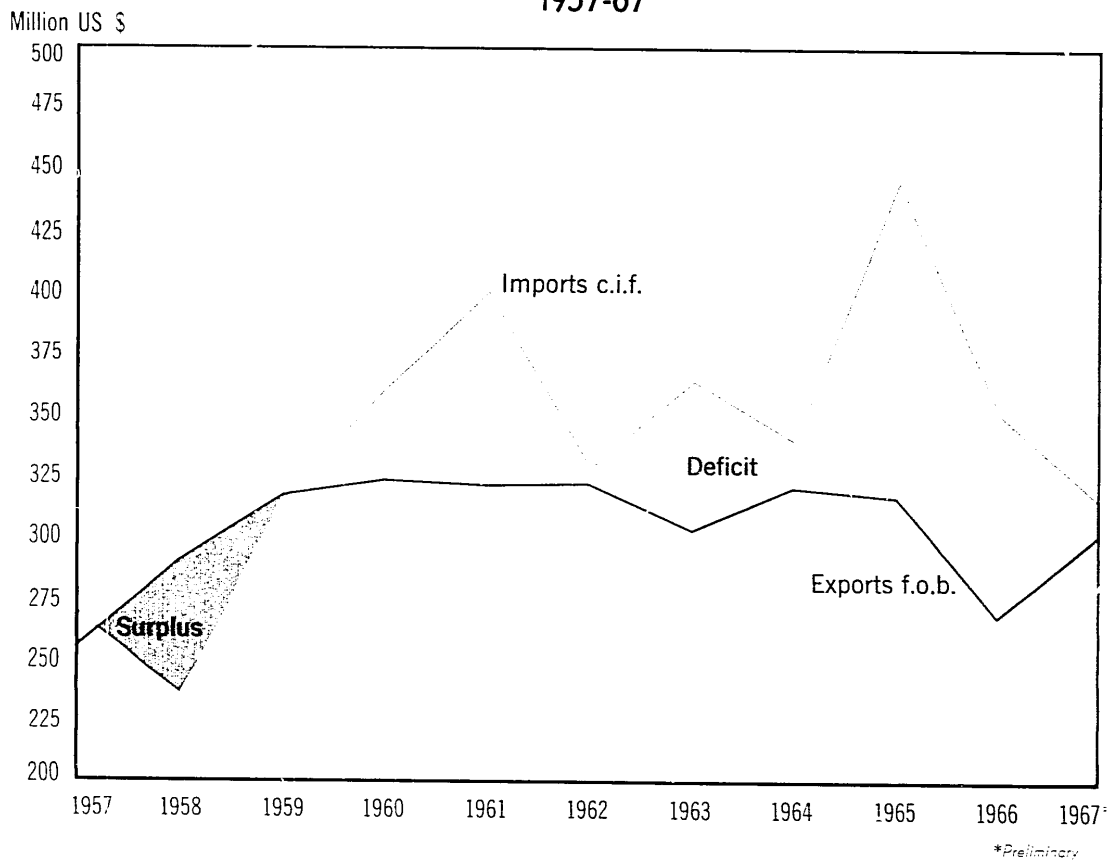
16. In an effort to increase exports and government revenues from export duties, to restrict imports, and to bring its currency into line with international purchasing power, Ghana devalued its currency by about 30 percent in July 1967. Benefits from devaluation are likely to be limited largely to higher government revenues from export taxes, and these gains are likely to be offset during the longer run by rising domestic costs. It is unlikely to stimulate cocoa exports greatly because the price paid to producers has not been raised proportionately. Moreover, a large increase in cocoa exports would tend to depress world cocoa prices because Ghana produces such a large share of the total crop. Even after devaluation, few of Ghana's manufacturing establishments are efficient enough to compete with imports without tariff protection.

* In 1967, foreign aid commitments to Ghana totaled about \$51 million; disbursements amounted to about \$17 million. In addition, Ghana drew a total of \$77 million from the IMF between mid-1966 and the end of 1967.

CONFIDENTIAL

Ghana: Foreign Trade Balance 1957-67

Figure 4



*Preliminary

CONFIDENTIAL



Shelling Cocoa - Traditional Hand Method

The Debt Burden

17. By mid-1966, when the new regime had accumulated fairly complete information on the country's external debt, the situation was approximately as shown in the following tabulation (in million US \$).

Short-term trade arrears	40
Short-term foreign bank loans	67
Medium-term suppliers' credits (principal only) a/	383
Long-term loans (principal only)	93
IMF repurchase commitments	64
Subtotal	<u>647</u>
Interest on long-term debts b/	53
Interest on suppliers' credits c/	55
Principal and interest on private borrowing	11
Interest on bank loans	5
Subtotal	<u>124</u>
<i>Total</i>	<i>771</i>

ILLEGIB

CONFIDENTIAL

18. Ghana was unable to meet the 1966 and 1967 scheduled repayments, which would have required between 30 and 40 percent of annual export earnings; it was even experiencing difficulty in clearing trade arrears. In June 1966, with at least the tacit consent of the major creditor countries, Ghana declared a moratorium on repayments of medium-term debt (the suppliers' credits) pending formal negotiations for a stretchout.

19. A debt rescheduling conference with the major creditors who are members of the IMF was held in December 1966 and produced agreement on a moratorium on all payments due for suppliers' credits from July 1966 to July 1967. In addition, 80 percent of the principal and interest due during the consolidation period -- 1 June 1966 through 31 December 1968 -- plus the amount in arrears as of 1 June 1966 was to be paid over the eight fiscal years 1972 through 1979.* The amounts due after December 1968 were not rescheduled, but it was agreed that if Ghana should find another such meeting necessary, the United Kingdom would convene it. The second rescheduling meeting is now tentatively set for late 1968.

20. The effect of the first rescheduling, shown in Figure 5, was to reduce greatly the debt-servicing burden for fiscal years 1967 and 1968 but to raise it in subsequent years. Ghana is slated to pay more than \$100 million in fiscal year 1969 but almost certainly will not be able to do so. Projected total debt servicing, which includes long-term loans and other commitments, is shown in Figure 5.

The Foreign Exchange Gap

21. Severe and continuing pressure on the balance of payments, largely the result of the debt burden, appears to be the single most important constraint on economic recovery. Because so much of this debt was incurred for nonself-amortizing projects, which will not contribute in any way to foreign exchange earnings, Ghana may now be caught in a vicious circle. Domestic output is likely to stagnate unless there is a significant increase in imports. However, unless production for export and for import substitution increases, the country will

* *Fiscal years begin on 1 July of the previous year.*

CONFIDENTIAL

Figure 5

Ghana: External Debt-Servicing Schedules Under Suppliers' Credits Fiscal Years 1967-81*

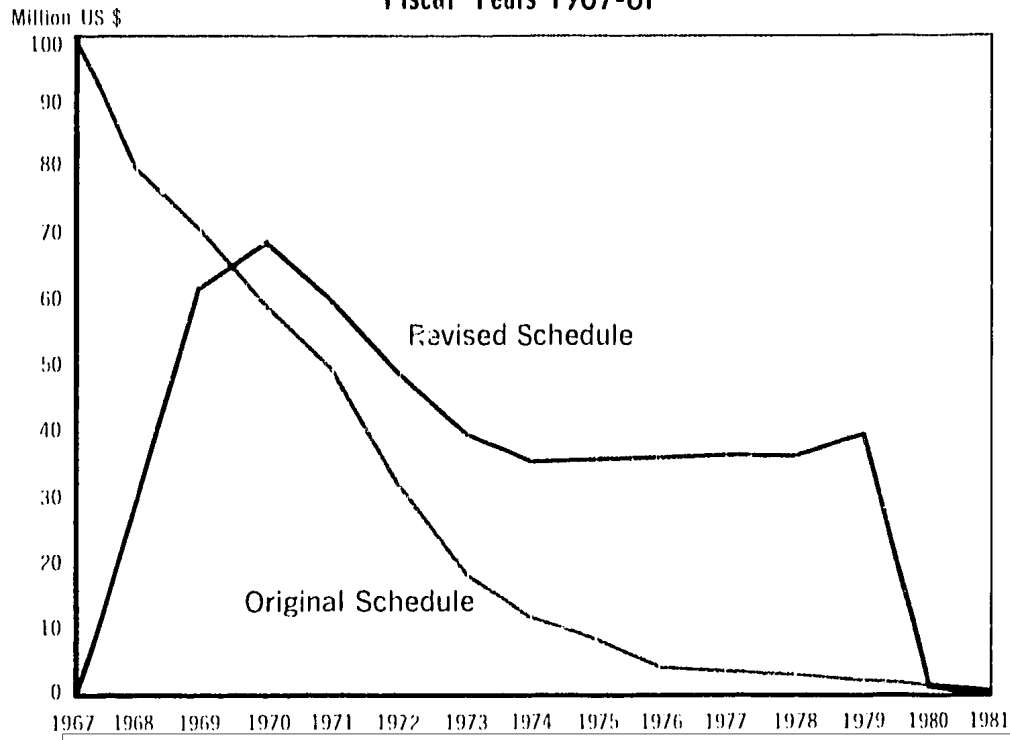
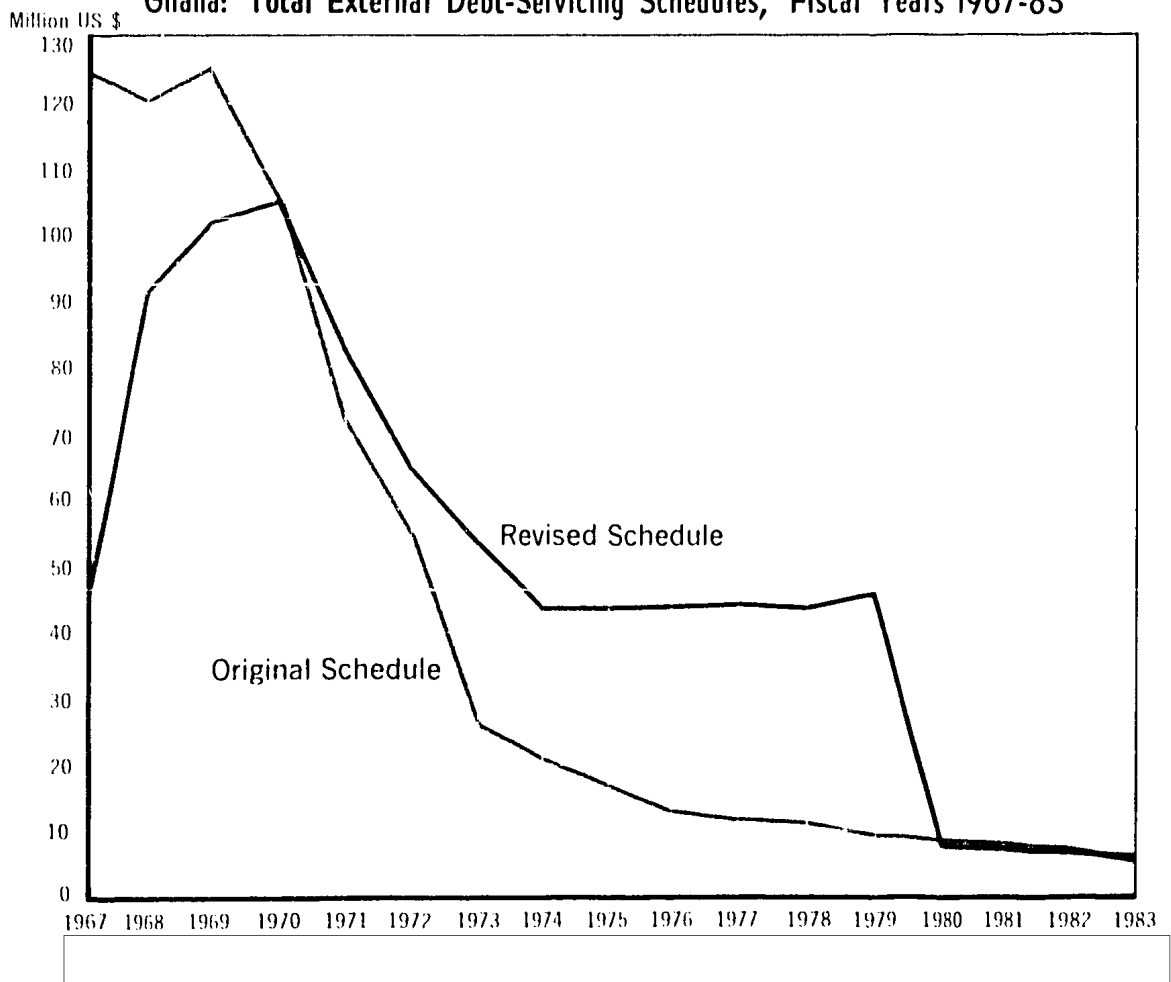


Figure 6

ILLEGIB

Ghana: Total External Debt-Servicing Schedules, Fiscal Years 1967-83*



ILLEGIB

CONFIDENTIAL

lack the foreign exchange required both to pay for greater imports and to service the external debt. Large amounts of foreign aid and investment seem to offer the only way out, but the prospects for large inflows are not bright.

22. Ghanaian officials, with the help of the World Bank, estimated the minimum necessary imports for 1967 to be about \$400 million. This amount would have provided enough raw materials and spare parts to allow the use of about half of existing industrial capacity; would have insured adequate supplies of foodgrains, drugs, fuels, and lubricants; would have kept the flow of investment goods large enough to complete viable development projects underway; and would have begun the rehabilitation of obsolescent facilities -- especially roads, trucks, and the railroad. Actual imports, however, fell short of the goal by about 20 percent, in spite of fairly generous aid commitments. The situation is expected to be worse in 1968, when imports will probably be lower than in 1967.

23. The balance-of-payments estimates, shown in the table, illustrate the problem. Since 1966, Ghana has paid most of the trade debts to Communist countries, has incurred no new medium-term debts, and has made a strenuous attempt to clear outstanding short-term trade arrears. Other private and official capital inflows have fallen far short of making up the difference, and the result has been a drastic reduction in imports. The shortfall has in turn slowed down economic recovery and reduced the level of output that might otherwise have been achieved.

24. The only means available for reducing the foreign exchange gap appear to be foreign aid and foreign investment, because the value of exports can be increased only slowly and will itself depend in part on the amount of imports. Cocoa production, which accounts for about 60 percent of total exports, can be expected to rise if the price paid to producers is high enough to discourage smuggling and to encourage harvesting. Large increases in production, however, will also require additional supplies of insecticides and fungicides and the subsequent increase in producer income will generate a greater demand for imported consumer goods. Ghana produces

Million US \$

	<u>1965</u>	<u>1966</u>	<u>1967 b/</u>	<u>1968 c/</u>
Exports, f.o.b.	+321.1	+280.3	+305.0	+346.0
Imports, c.i.f.	-465.9	-361.9	-311.4	-278.1
Trade balance	-144.8	- 81.6	- 6.4	+ 67.9
Investment income				
Inflow	+ 4.5	+ 4.2	+ 3.6	+ 3.1
Outflow	- 31.4	- 24.4	- 32.3	- 44.7
Transfer payments	- 13.1	- 8.7	- 17.9	- 18.0
Services and other	- 37.5	- 31.6	- 40.1	- 37.9
Current account	-222.3	-142.1	- 93.1	- 29.6
Government capital transaction				
Commercial credits	+ 48.9	+ 39.9	+ 0.4	- 27.6
Bilateral balances	+ 34.7	- 6.2	- 20.6	
Capital aid	+ 2.8	+ 8.9	+ 15.0	+ 51.4
Private capital				
Direct investment	+ 38.2	+ 59.7	+ 36.7	+ 29.9
Trade credits	+ 49.6	+ 6.2	+ 9.8	- 33.6
Other	- 2.1	- 1.1	- 0.3	- 2.2
Capital account	+172.1	+107.4	+ 41.0	+ 17.9
Net errors and omissions	- 1.6	- 4.7	+ 6.0	
Cumulative total	- 51.8	- 39.4	- 46.1	- 11.7
Net IMF position	- 5.6	+ 50.1	+ 21.8	

a. Because of rounding, components may not add to the totals shown.
 b. Revised estimate.
 c. Preliminary estimate.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

about a third of the world's cocoa, and if its output rises faster than world demand (by more than 3 to 5 percent a year), the rise tends to depress the world market price, as happened in crop year 1965 (see Figure 7). Other exports could also be increased gradually, but Ghana cannot expect total exports to rise more than 4 to 5 percent annually during the next few years. Even this rate of growth implies sufficient imported inputs and a diligent effort to upgrade the quality of investment and to improve the efficiency of mining, forestry, and other enterprises.

25. Foreign aid receipts are expected to be considerably higher in 1968 than in 1967, partly because of the slowness with which previous commitments have been disbursed, but they will probably not be great enough to close the foreign exchange gap. Aid commitments for 1968 totaled about \$65 million as of May 1968: the United States has committed about \$27 million; other major donors include Canada, West Germany, and the United Kingdom. Ghana is hoping for more aid but will almost certainly not receive enough to allow imports to equal even the low level of 1967. Assuming a second rescheduling of medium-term debts, Ghana will need at least \$100 million a year in aid if it is to resume moderate economic growth.

26. External assistance must be in the form of grants or long-term loans with long grace periods. Given the existing debt service burden, and assuming frequent reschedulings, Ghana cannot hope to service extensive new medium-term loans, even for carefully chosen and productive projects. The NLC welcomes foreign-private investment in existing state-owned enterprises as well as for new undertakings. Efforts to attract foreign participation in public enterprises have, in some cases, met with strong popular objections, however, and it may prove difficult to attract much capital from abroad. In any event, foreign-private investment is unlikely to be great enough to have a significant impact on the balance-of-payments problem in the next few years.

Prospects

27. Ghana has adequate human and natural resources to support an orderly development; it is one of the richer countries in West Africa. But

CONFIDENTIAL

CONFIDENTIAL

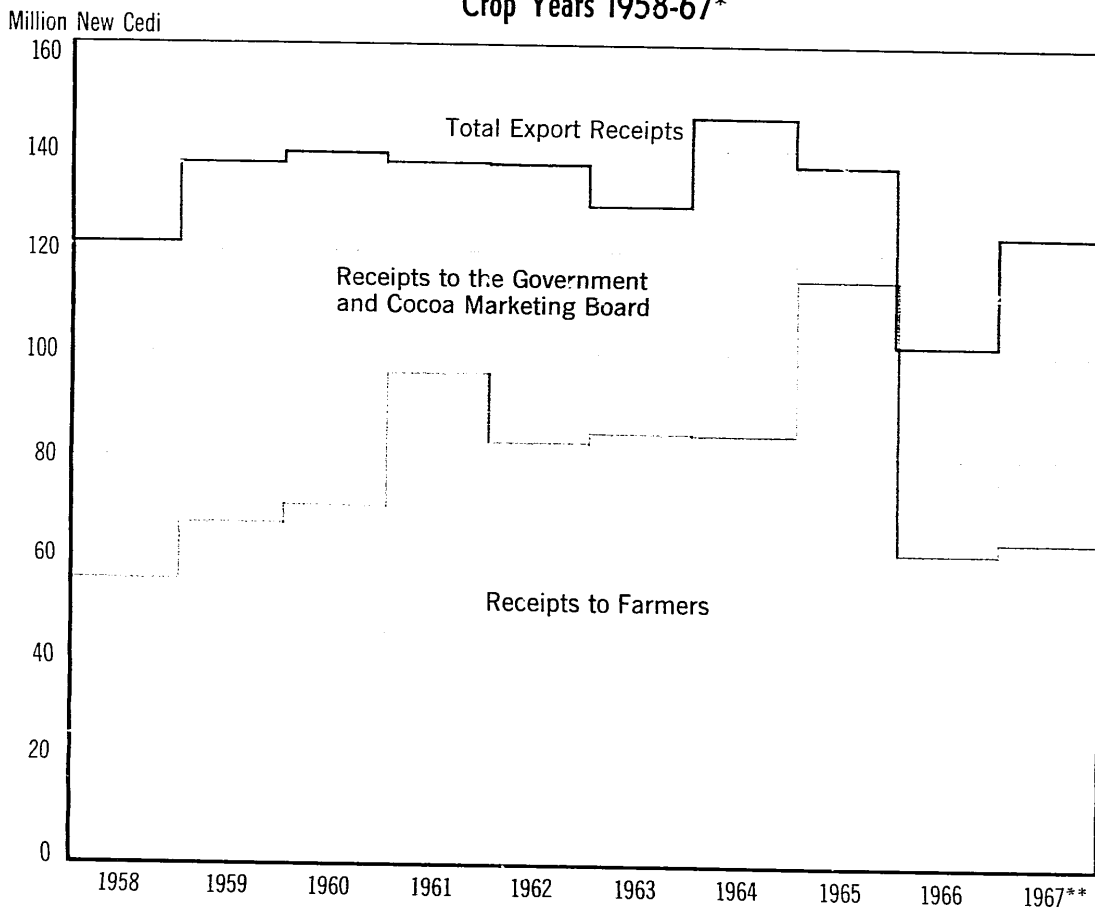
whether its economy will stagnate under the burden of debt repayment or recover and resume real growth will depend to a large extent on the amount of foreign aid it gets and on continued popular acquiescence to a protracted period of austerity. In view of the downward trend in aid from the major donors to the less developed countries, it appears unlikely that Ghana will obtain the annual minimum of about \$100 million in gross aid necessary for recovery and moderate economic growth. If foreign aid falls substantially short of this target, economic recovery will be long and painful, and significant new development is unlikely for several years.

28. Plans are now under way for elections leading to a return to civilian rule within a year or so. A popularly elected government may find it even more difficult to continue restrictions on government spending and on imports of consumer goods -- restrictions that appear essential for eventual recovery and growth. The Ghanaian people have shown remarkable patience with stagnant or declining personal incomes in the past half decade, but the rising number of labor disputes and wildcat strikes during the past six months indicates growing pressure for long-delayed wage hikes. Continued austerity may well contribute to political instability, especially under a civilian government.

CONFIDENTIAL

Distribution of Cocoa Export Earnings Crop Years 1958-67*

Figure 7



59276 7-68

*Crop years begin on 1 October of the previous year
**Preliminary